

The SBA 504 Loan Program

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What is the SBA 504 Loan Program?

It is the Small Business Administration's
“**economic development** financing program.”

Principal Objective: Loans are provided to new or expanding, small businesses to aid in **job creation**. Create one job for every \$50,000 of 504 loan amount.

Method of Delivery: **Combination** financing together with banks and non-bank lenders.

Eligible Uses of 504 Project Funds

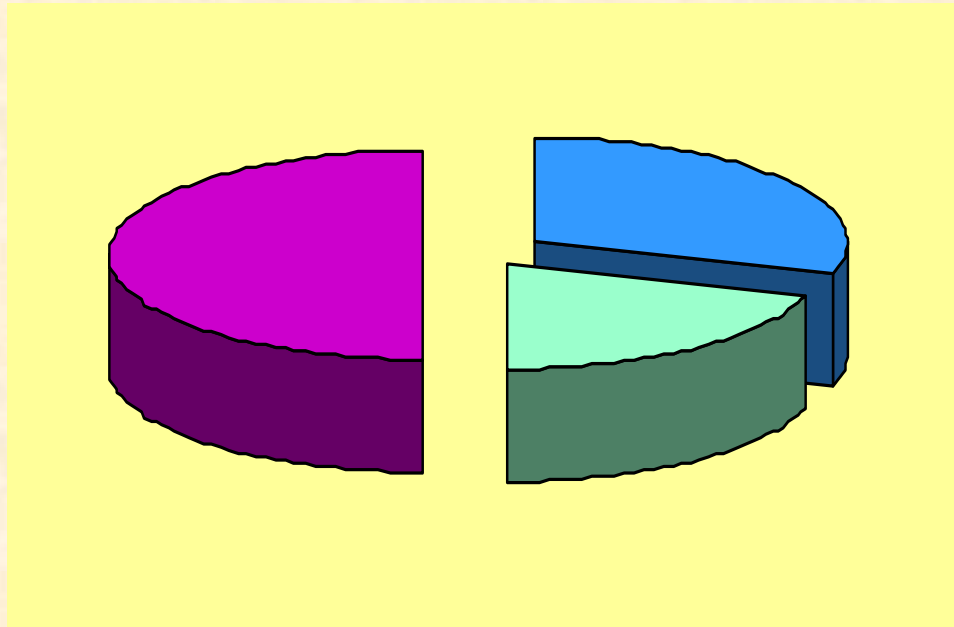
Fixed-Asset Financing:

- Purchase land & existing buildings
- Renovate or expand existing facility
- New building construction
- Acquire/Install machinery
- Soft costs involved with the projects



Typical 504 Project Structure

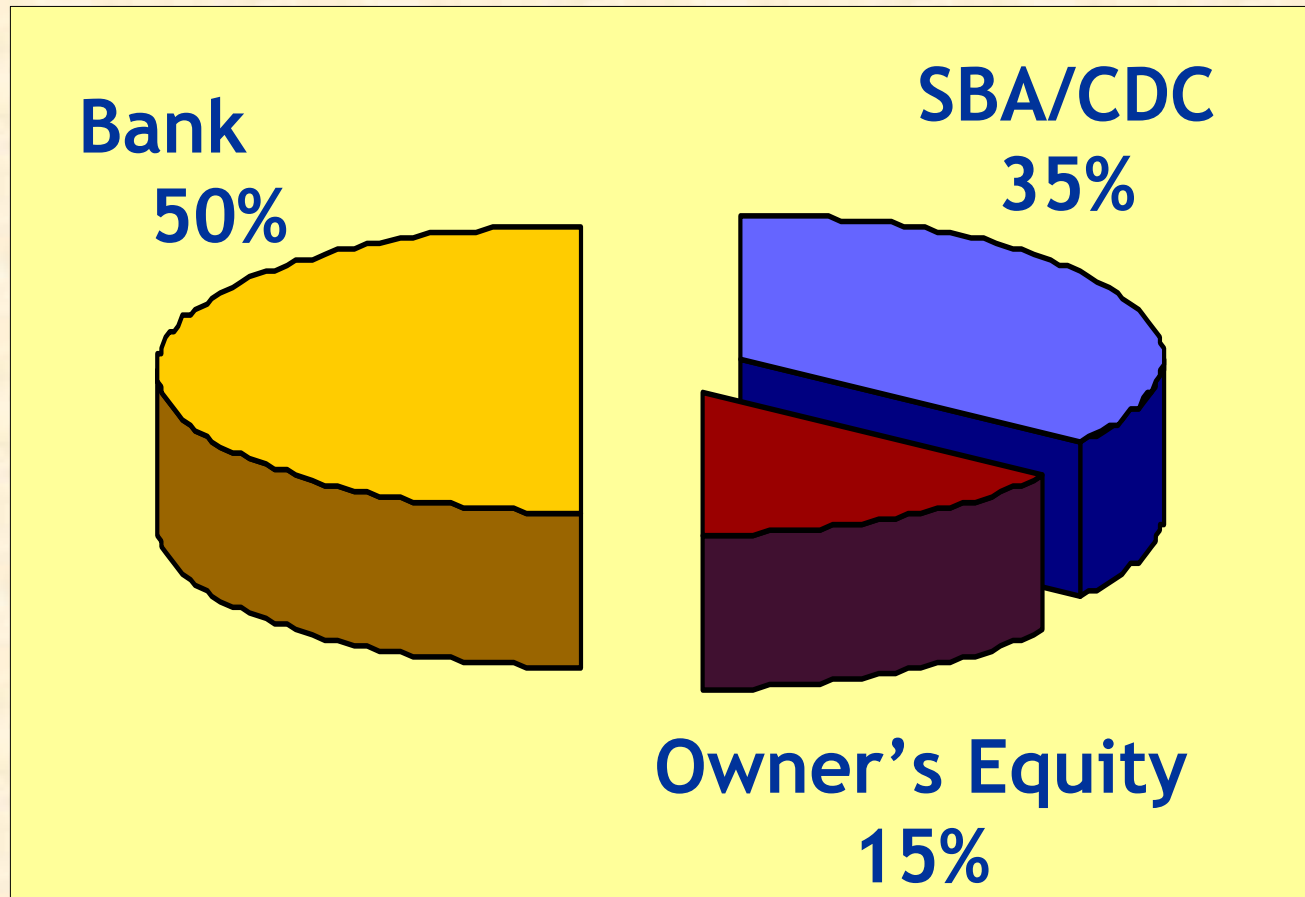
Bank
Loan
50%



SBA/CDC
Loan
40%

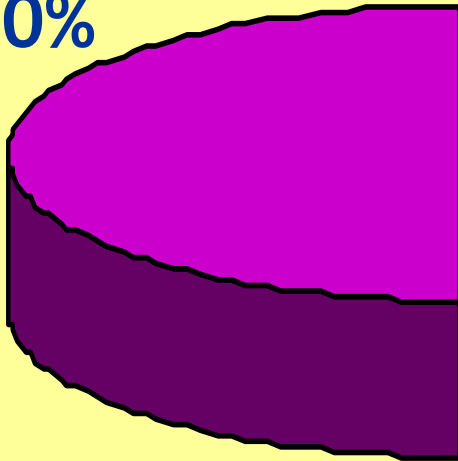
Owner's Equity 10%

Typical Structure for a Special Purpose Building **OR** Start-up Business

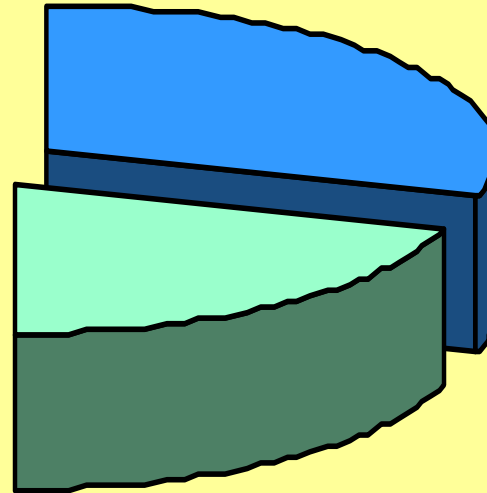


Typical Structure for Start-Up Business AND Special Purpose Building

Bank
50%



SBA/CDC
30%



Owner's Equity
20%

Benefits to Borrower

- Up to 90% financing
- Long-term, competitive fixed rate funds with 10 or 20 year term
- Bank interest rate usually more favorable
- Combine Rates overall blended/lower rate
- 504 loan fees and closing costs included in loan amount
- Ordinarily, no additional collateral required

Project Size Requirements



**Minimum Amount of 504
Loan: \$50,000**



**There is no maximum limit to
project size.**

**Maximum Amount of 504
Loan: \$1,500,000**



**Maximum 40% of project costs
(\$2,000,000 maximum amount if
SBA Public Policy Goal is met)**

Special Manufacturer Loan

**Maximum Amount of 504
Loan: \$4,000,000**



**One job for every \$100,000
of 504 loan amount**

Public Policy Goals

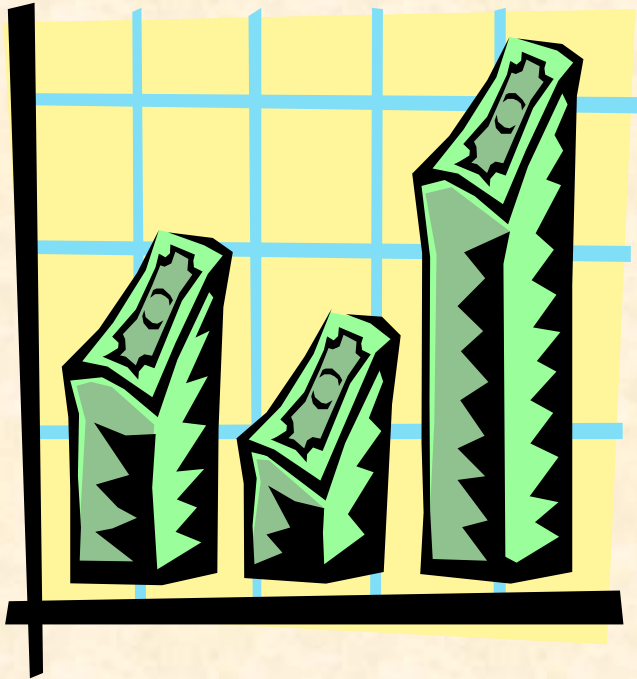
**Opportunity to fund up to
\$2.0 Million**



- Aiding Rural Development
- Promoting Women, Minority,
or Veteran-Owned

Business Size Standards

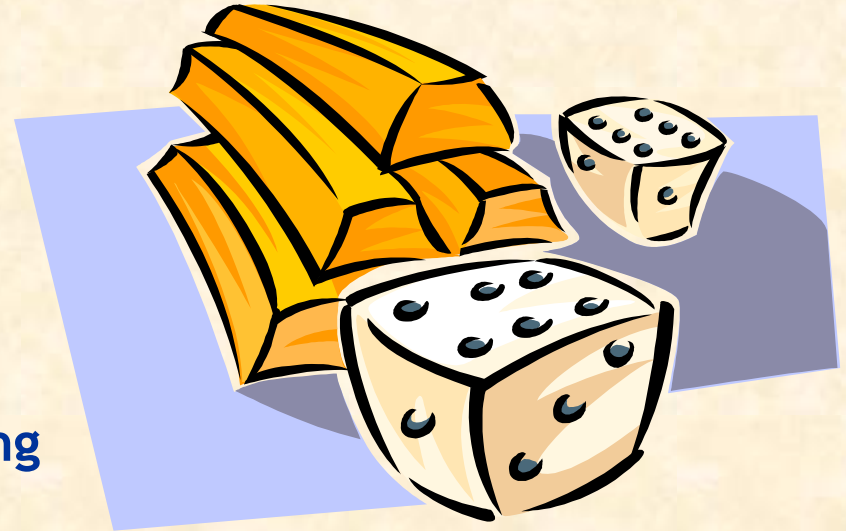
Combined with all affiliates, business must have:



- Less than \$7,500,000 **tangible** net worth
- Less than \$2,500,000 average net income over last 2 years

Businesses Not Eligible for 504 Funding

- Non Profits
- Lending institutions
- Life Insurance companies
- Private clubs
- Speculative investment
- Non-owner occupied building
- Gambling concerns
- Businesses engaged in promoting religion
- Cooperatives (exception for some producer coops)
- Political or lobbying services
- Businesses located in foreign country or owned by an alien
- Businesses selling through pyramid plans
- Businesses with prior loss to the government



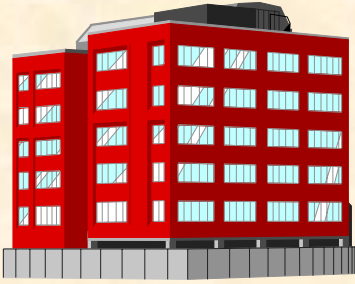
Debenture Interest Rate

- Based on current market conditions at the time the debenture is sold
- Payments are paid to bond investors on semi-annual basis
- Current Effective Rate as low as...6.53% (Sept 2007)



Ownership of Building

- **By the Operating Company (OC)**
- **By an Eligible Passive Company (EPC)**
 - **Individuals**
 - **New corporation**
 - **Partnership**
 - **Limited liability corporation**
 - **Trust**



Occupancy Requirements

➤ Existing Building:

Business must occupy at least 51%

- may lease out the other 49% permanently

➤ Newly Constructed Building:

Business must initially occupy at least 60%

- should occupy 80% w/in 10 yrs.

Borrower's Concerns

- Prepayment strategy -- pay down bank loan first
- Fees -- offset by long-term savings
- 504 Loan Portion is assumable

